Management Report

MANAGEMENT REPORT AND FINANCIAL REVIEW OF ERSTE BANK GROUP FOR 2005

General economic environment

In 2005, the global economic environment, and financial market trends in particular, were marked by the impact of rising oil prices on economic growth, inflation and interest rates. The contrast between the negative impact of higher oil prices and related inflationary fears on the one hand and economic and corporate earnings growth on the other lead to increased volatility.

Austria's GDP grew by 1.7% last year, a rate that was above the Eurozone average. In Erste Bank's main central European markets (Czech Republic, Slovakia, Hungary and Croatia), however, growth rates were substantially higher, ranging from 3.6% to 5.1%. The Czech and Slovakian currencies posted significant gains against the Euro. In 2005, monetary policy was marked by eight successive increases in the US benchmark interest rate from 2.25% to 4.25%, while Austria's benchmark rate stabilised at a very low level. Central European rates posted further declines, which clearly put pressure on net interest margins in the retail business.

Erste Bank Group's performance

The recently acquired Serbian bank Erste Bank Serbia (Erste Bank a.d., Novi Sad, formerly Novosadska Banka) is consolidated in the financial statements as from 9 August 2005, the transaction closing date. The impact of this first-time consolidation is minimal, however. As of 31 December 2005, the subsidiary's total assets were EUR 142 million; during the period from 9 August through 31 December 2005, it had operating income of EUR 6.7 million, operating expenses of EUR 10.7 million (which includes restructuring costs of EUR 5.9 million) and a pre-tax loss of EUR 7.8 million.

The revised IASB standards, IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement), became compulsory as of 1 January 2005. They mainly affect the presentation of securities trading, the valuation of loans and the presentation of hybrid capital. Under the transitional provisions, prior-year figures must be restated. The rates of change indicated are based on the restated prior-year figures. Additional information is presented in the Notes to the Consolidated Financial Statements. The details of these changes were outlined in press releases published on 3 May 2005 and 6 December 2005, which can be found on the Erste Bank home page at (www.erstebank.com).

In 2005, Erste Bank recorded outstanding results yet again, following up on the success of recent years. **Operating income** (consisting of net interest income, net commission income, net trading result and income from insurance business) rose by 6.9% to EUR 4,329.4 million. Despite the low interest rate levels – in Central Europe as well as in Austria – net interest income increased by 5.0% overall to EUR 2,794.2 million. Meanwhile, net commission income rose by 10.7% to EUR 1,256.8 million, a very favourable result.

Given the modest 3.2% increase in **general administrative expenses** to EUR 2,676.9 million, **operating profit** (operating income less general administrative expenses) increased by 13.6% to EUR 1,652.5 million.

The **cost/income ratio** (general administrative expenses as a percentage of operating income) improved from 64.1% in 2004 to 61.8% last year.

After factoring in a slight 3.8% increase in **risk provision allocations for loans and advances** to EUR 421.6 million and a reduction in the **other operating result** from negative EUR 51.3 million to only EUR 16.1 million, **pre-tax profit** increased by 21.9% to EUR 1,214.8 million.

Based on the Erste Bank Group's average number of employees (36,643 in 2005, up from 36,533 the previous year – see Notes for details), employee productivity rose substantially in 2005. The pre-tax profit per employee totalled EUR 33 thousand last year, up from EUR 27 thousand in 2004.

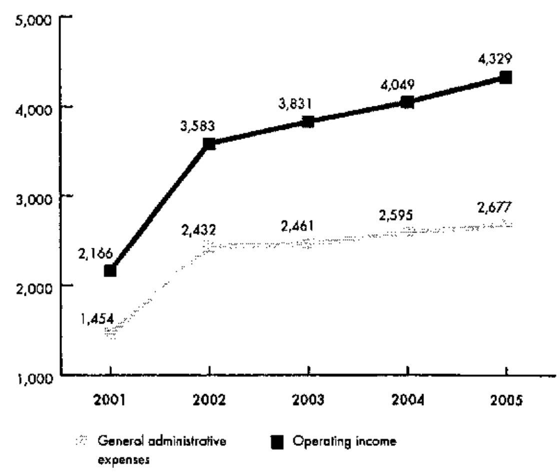
Group net profit after taxes and minority interests advanced 36.6% to EUR 711.7 million, while the **return on equity (ROE)** – i.e. group net profit after taxes and minority interests as a percentage of average consolidated shareholders' equity – improved from 17.0% in 2004 to 19.0%.

At 31 December 2005, the Erste Bank Group had a total of 987 branches in Austria (including Haftungsverbund savings banks) and 1,296 branches in Central Europe.

At 31 December 2005, Erste Bank Group's **total assets** were EUR 152.7 billion, up 9.2% from the previous year's total of EUR 139.8 billion. **Loans and advances to customers** increased by 10.4% from EUR 72.8 billion to EUR 80.4 billion, while **amounts owed to customers** rose by 6.7% from EUR 68.2 billion to EUR 72.8 billion.

Despite an above-average increase in risk-weighted assets, the Erste Bank Group's **Tier 1 capital ratio** (Tier 1 capital under the Austrian Banking Act (BWG) as a percentage of risk-weighted assets under §22 para. 2 of the BWG) was 6.8% as of 31 December 2005, up from 6.7% the previous year. The **solvency ratio** (own funds less trading book requirements and unsettled currency positions as a percentage of risk-weighted assets under §22 para. 2 of the BWG) was 11.0%, up from 10.7% the previous year.

Operating income and general administrative expenses (EUR million)



ANALYSIS OF BUSINESS PERFORMANCE

Operating income

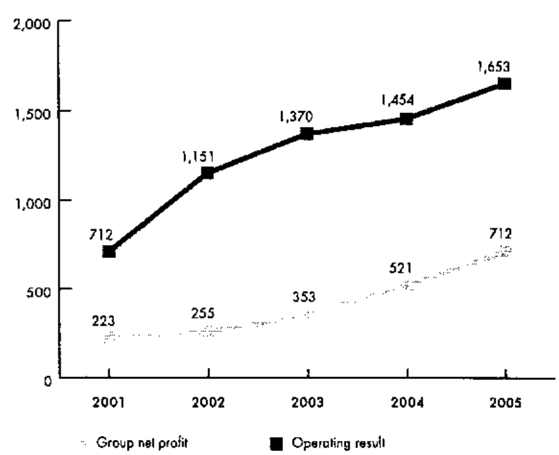
As mentioned above, total operating income increased by 6.9% to EUR 4,329.4 million. Nearly every income category recorded substantial gains, led by net commission income and the net trading result.

Net interest income

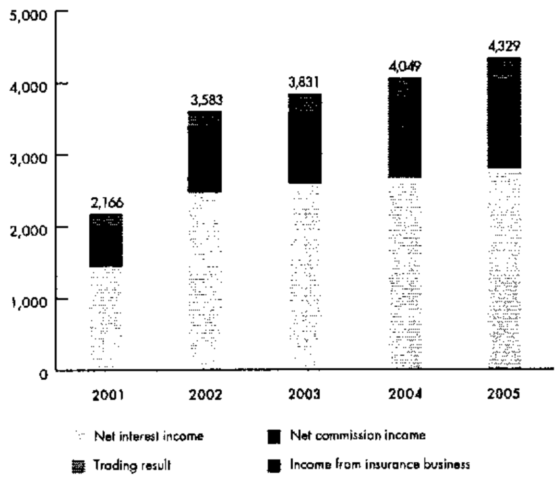
Despite a particularly difficult market environment for the retail banking business, marked by persistent low interest rates in Austria and Central Europe, **net interest income** rose by 5.0% from EUR 2,660.3 million to EUR 2,794.2 million in 2005. This result includes EUR 22.0 million in income from associates and other investments (EUR 22.7 million the previous year), as well as EUR 24.8 million in income from companies valued at equity (EUR 13.7 million the previous year).

Income from investment properties totalled EUR 70.6 million in 2005, up from EUR 68.8 million the previous year.

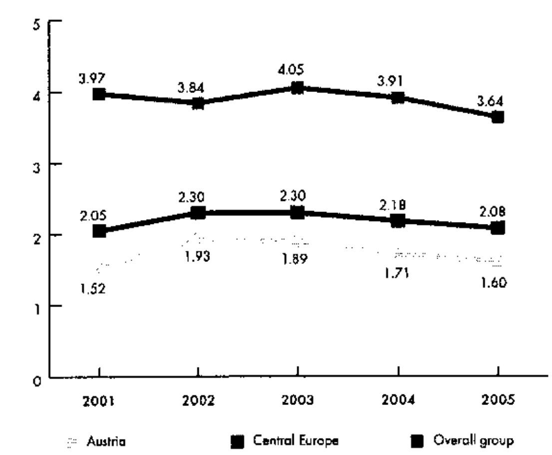
Operating result and group net profit (EUR million)



Operating income structure and trend (EUR million)



Net interest margin (in %)



The overall net interest margin (net interest income as a percentage of average interest-bearing assets – calculated as total assets less cash, trading assets, tangible and intangible fixed assets and other assets) contracted slightly by 2.18% to 2.08%. This contraction resulted from the continuing margin pressure and low interest rate environment as well as the additional refinancing costs for the January 2005 acquisition of the remaining 19.99% equity interest in Slovenská sporiteľňa. In Austria, the net interest margin decreased from around 1.7% to around 1.6%, mainly as a result of the flat yield curve. In the central European subsidiaries, this margin ranged between 3.2% and 5.0%, slightly below the previous year's level but well above the level in Austria.

Net commission income

Net commission income posted substantial gains once again in 2005, rising by 10.7% from EUR 1,135.4 million to EUR 1,256.8 million and making a significant contribution to overall earnings growth. These gains were generated mainly in the securities business, which rose by 29.3% to EUR 391.9 million thanks to a favourable securities market environment, and sales of insurance products, which increased by 12.3% to EUR 69.2 million. The payments business also performed well, gaining 9.5% to EUR 485.7 million. Net commission income posted above-average growth in all countries, including Austria.

Net trading result

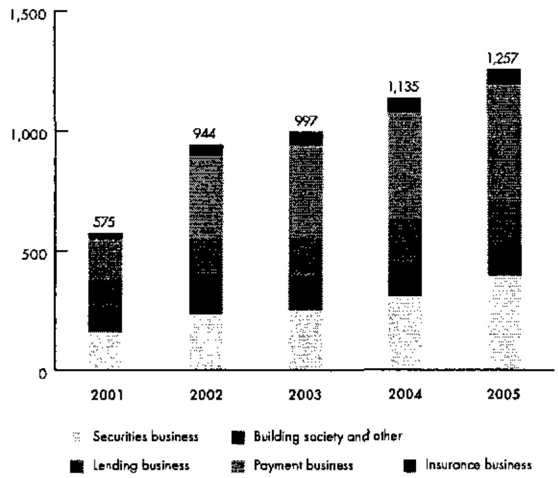
After recording above-average growth to EUR 216.5 million in 2004, the **net trading result** gained a robust 11.6% in 2005 to reach EUR 241.7 million. The trading units at Erste Bank Vienna and the Central European subsidiaries all made positive earnings contributions. Of the central European subsidiaries, Ceska sporitelna, Erste Bank Hungary and in particular Erste Bank Croatia delivered robust earnings.

Securities and derivatives trading increased by 7.5% to EUR 96.6 million, while foreign exchange trading grew by 14.6% to EUR 145.1 million.

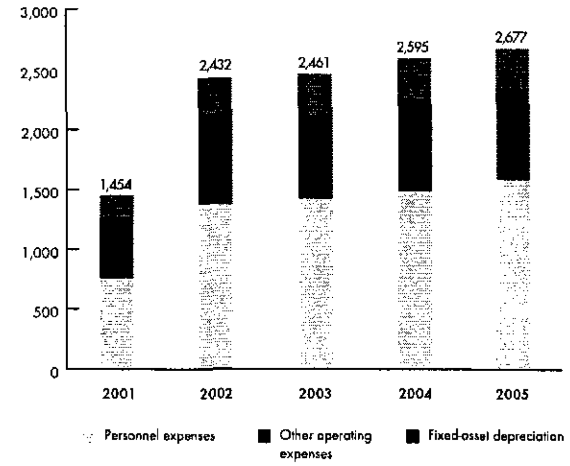
Income from insurance business

Income from insurance business was very favourable in 2005, maintaining the previous year's result of nearly EUR 37 million despite the non-recurring expense related to the conversion to new actuarial tables and a corresponding one-off charge of EUR 23 million for 2005.

Net commission income structure and trend (EUR million)



General administrative expenses structure and trend (EUR million)



s Versicherung, the Austrian life insurance market leader, and the local Central European companies performed very well. The favourable results in 2005 were supported by market-driven gains on financial investments held by group insurance businesses.

General administrative expenses

In 2005, **general administrative expenses** increased by a modest 3.2% to EUR 2,676.9 million. The increase can be attributed mainly to the Central European subsidiaries, whose expenses rose by 10.0%. In part they involved higher value-added tax rates (as from May 2004) in the Czech Republic and Slovakia. The impact of local currency gains against the Euro also played a role. Although the first-time consolidation of Erste Bank Serbia, is largely immaterial, the impact on expenses is nevertheless greater, since restructuring costs related to the company were already booked in 2005. Overall, the Erste Bank Group consolidated financial statements include EUR 10.7 million in general administrative expenses from Erste Bank Serbia. Adjusted for Erste Bank Serbia, general administrative expenses in Central Europe increased by 8.8%.

Meanwhile, in Austria (incl. Corporate Center and the International Business) these expenses contracted by 0.5% despite increased expenditures to establish group-wide functions and preparations for strategic projects.

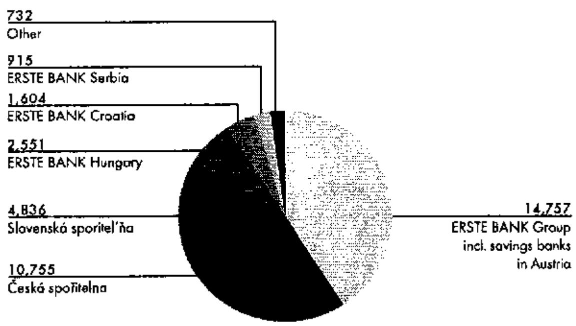
Total personnel expense increased by 6.8% from EUR 1,482.4 million to EUR 1,583.4 million.

This increase was disproportionately high in Central Europe, where it increased by 9.6%, or by 8.2% after adjusting for Erste Bank Serbia. Along with the generally higher wage and salary adjustments, the increase reflects investments in continuing employee training. The Erste Bank Group substantially increased the relative share of performance-related compensation.

At 31 December 2005, the **headcount** had risen by 0.8% to 36,150 from the previous year. This figure includes 915 employees (2005 year-end total) from the first-time consolidation of Erste Bank Serbia. Adjusted for these employees, the group's headcount in fact fell by 1.7%. Further staff reductions were made in the Czech Republic in particular. The expansion of the branch networks in Hungary and Croatia resulted in higher

headcounts in those countries. The increase at other subsidiaries can be attributed to the increased presence in Central Europe of the Immorent Group and s Versicherung.

Headcount at 31 December 2005



At 31 December 2005, 63 employees (66 the previous year) worked in non-banking subsidiaries (mainly hotel and leisure branches).

The ongoing cost management efforts were reflected most notably in the very modest increase in **other administrative expenses**. Despite the continued expansion of group-wide functions and preparations for strategic group-wide projects, which led to an increase in expenses, but are expected to reduce the overall cost base in the future, these expenses decreased by 1.7% from EUR 772.2 million in 2004 to EUR 759.0 million last year.

In Austria (incl. Corporate Center and International Business), other administrative expenses contracted by 11.3% to EUR 387.1 million while in Central Europe they rose by 10.8% to EUR 371.9 million as a result of restructuring costs related to Erste Bank Serbia and currency appreciation. Adjusted for Erste Bank Serbia, they increased by 9.4%. In particular the Group was able to reduce its IT expenses by 13.0% to EUR 169.5 million.

Depreciation on tangible fixed assets also fell by 1.7% from EUR 340.3 million to EUR 334.5 million. Overall depreciation expense included an increase on intangible assets (mainly software) from EUR 136.9 million to EUR 139.0 million, a decrease on real estate property from EUR 53.9 million to EUR 46.9 million and a decrease on other items (mainly office fixtures, including minor assets) from EUR 149.5 million to EUR 148.6 million.

Risk provisions

Risk provisions for loans and advances included net allocations (allocations less releases) of EUR 383.5 million, up from EUR 360.3 million the previous year. This item includes EUR 74.7 million in write-offs for loans, up from EUR 61.2 million the previous year, as well as EUR 36.6 million in amounts recovered on non-performing loans and advances, up from EUR 15.3 million the previous year.

Overall, risk provision allocations for loans and advances rose slightly from EUR 406.2 million to EUR 421.6 million in 2005. Central Europe accounted for approximately 19.0% of that total.

This figure does not include interest receivable, which is instead reflected in net interest income. Additions to and releases of other risk provisions unrelated to the lending business are reported under other operating result.

The increase in risk provision allocations resulted in large part from the Haftungsverbund savings banks. Other factors included the strong growth in lending in the Central European countries, as well as the non-recurrence of the previous year's releases in the Slovakian and Croatian bank subsidiaries.

In 2005, risk provision allocations totalled 0.55% of the average volume of loans and advances to customers during the year, compared with 0.58% the previous year.

Detailed information on the Erste Bank's financial risks and its risk management goals and methods are provided in the Risk Report in the Notes.

Other operating result

Other operating result comprises price gains from securities not held for trading, valuation gains and income from the disposal of equity interests, income from disposal of financial assets, risk provisions not related to lending, expenses for deposit insurance at the central European subsidiaries, and other expenses and income.

The other operating result was significantly reduced from negative EUR 51.3 million in 2004 to only EUR 16.1 million last year. In 2004, this position included several one-off items that for the most part offset one another (in particular a gain on the sale of the Czech property insurance unit and a valuation gain related to the pending sale of the equity interest in Investkredit AG on the one hand and goodwill depreciation on impairments on the other). Income from securities in the non-trading portfolio increased from EUR 51.3 million to EUR 77.8 million in 2005. Also, the proceeds from the sale or exceptional valuation of property assets increased significantly from EUR 11.3 million in 2004 to EUR 36.4 million, largely as a result of the sale of a Vienna office building for approximately EUR 21.6 million. Regulatory changes in the Czech Republic led to a reduction in the contribution to the deposit insurance. Overall, these payments fell from EUR 54.0 million in 2004 to EUR 42.6 million last year. This item is broken down in detail in the Notes.

These developments all resulted in a 21.9% increase in **pre-tax profit** EUR 996.6 million in 2004 to EUR 1,214.8 million last year.

Tax situation

Under the regulations governing consolidated tax groups that entered into force in 2005, Erste Bank AG and the largest Austrian subsidiaries (in particular Bausparkasse der österreichischen Sparkassen, Immorent, Erste-Sparinvest KAG, s Versicherung and Salzburger Sparkasse) form a consolidated tax group as defined by §9 of the Austrian Corporation Tax Law and are subject to group tax.

In 2005, this profit pool incurred no current expense for Austrian corporation tax as a result of tax loss carry-forwards, substantial tax-exempt earnings and available tax credits, especially abroad, on capital gains taxes. Therefore, the amounts reported under **taxes on income** include mainly foreign income-based taxes, the deferred tax assets and liabilities required to be recognised under IFRS and taxes payable by smaller Austrian subsidiaries and various Haftungsverbund savings banks.

The reported tax expense for 2005 of EUR 300.0 million (2004: EUR 277.9 million) includes a deferred tax charge of EUR 22.1 million (2004: EUR 45.5 million).

At 31 December 2005, EUR 244 million in deferred tax assets were capitalised, while EUR 119 million in deferred tax liabilities were recognised.

In 2005, the Erste Bank Group's reported **tax rate** (taxes on income as a percentage of pre-tax profit) was 24.7%, down from 27.9% the previous year. The decrease resulted mainly from the non-recurring exceptional depreciation of deferred tax assets in 2004 prior to the reduction in the Austrian corporate tax rate (approximately EUR 20 million), the application as from 1 January 2005 of this tax rate reduction from 34% to 25% and the lowering of the corporate tax rate in the Czech Republic from 28% in 2004 to 26% last year.

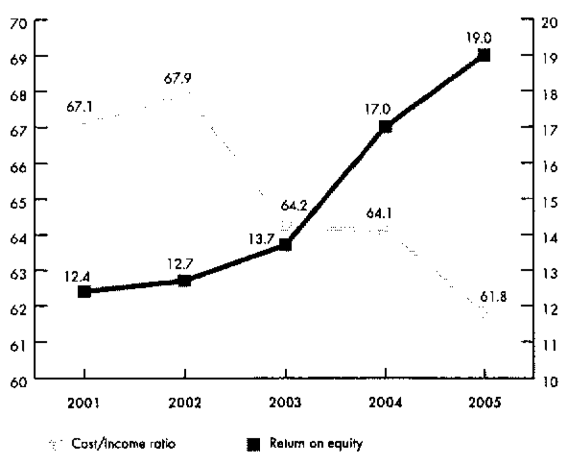
Net profit after taxes and minority interests

After deducting taxes on income and minority interests (i.e. interests held by third parties on the earnings of consolidated companies, and in particular of Haftungsverbund savings banks), the **Group net profit** totalled EUR 711.7 million, up 36.6% from the previous year's result of EUR 520.8 million.

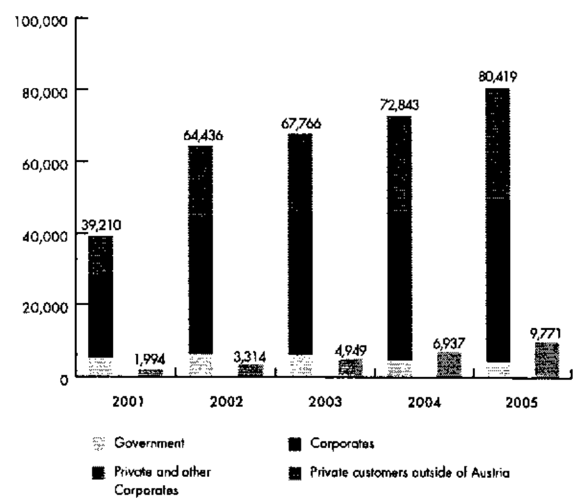
In 2005 the return on equity based on Group net profit after taxes and minority interests stood at 19.0%, up from 17.0% in 2004. **Earnings per share** increased from EUR 2.18 in 2004 to EUR 2.96 last year.

For the 2005 financial year, the Management Board proposes a **dividend** of EUR 0.55 per share, a 10.0% increase from the previous year's dividend of EUR 0.50.

Key profitability ratios (in %)



Loans and advances to customers, structure and trend (EUR million)



Balance sheet developments

At 31 December 2005, the Erste Bank Group's **total assets** were EUR 152.7 billion, up 9.2% from EUR 139.8 billion the previous year.

Overall, **loans and advances to customers** increased by 10.4% to EUR 80.4 billion. In Austria, these loans rose by 5.9% to EUR 49.8 billion, while abroad they increased by 18.6% to EUR 30.6 billion. The retail lending business segment outside of Austria (which in this segment is virtually synonymous with Central Europe) recorded very satisfactory growth rates, rising by 40.9% to EUR 9.8 billion.

Risk-weighted assets as defined under § 22 para. 2 of the Austrian Banking Act (BWG) increased by 14.8% to EUR 75.0 billion in 2005.

At 31 December 2005, **risk provisions** totalled EUR 2.8 billion, virtually unchanged from the previous year as additions in 2005 were offset by releases and uses.

Central Europe accounted for 21% of these provisions, while Austria and other regions accounted for approximately 79%. Detailed information on existing risks and the presentation of the risk management goals and methods is presented in the Notes.

Trading assets increased substantially, rising by 17.2% from EUR 4.6 billion to EUR 5.4 billion. At 31 December 2005, 53.9% of the trading assets consisted of listed, fixed-income securities.

Other current assets also rose at an above-average rate of 16.8% from EUR 16.0 billion in 2004 to EUR 18.6 billion. This item includes securities in the available-for-sale portfolio, which under the revised version of IAS 39 must report changes in fair value in the equity statement (at 31 December 2005, aggregate changes in fair value totalled EUR 406 million, up from EUR 429 million the previous year).

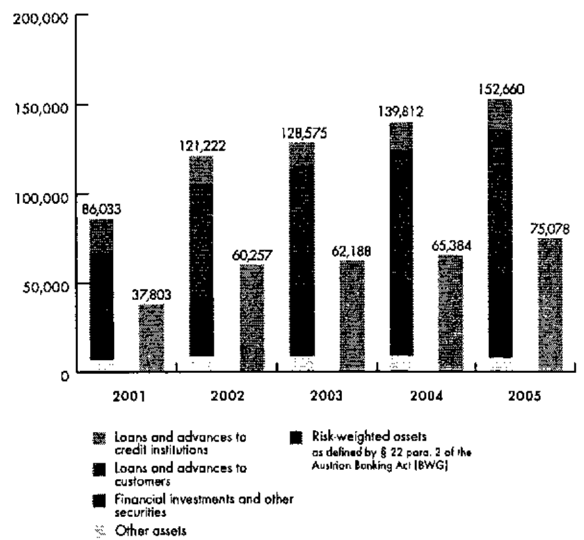
This position also includes the new fair value portfolio category, for which changes in fair value and realised capital gains and losses must be entered on the income statement.

At 31 December 2005, assets in the fair value portfolio totalled EUR 4.4 billion, while those in the available-for-sale portfolio stood at EUR 14.2 billion. The increase was concentrated exclusively in the available-for-sale portfolio. Approximately 64.5% of all the securities included under other current assets consisted of listed, fixed-income securities.

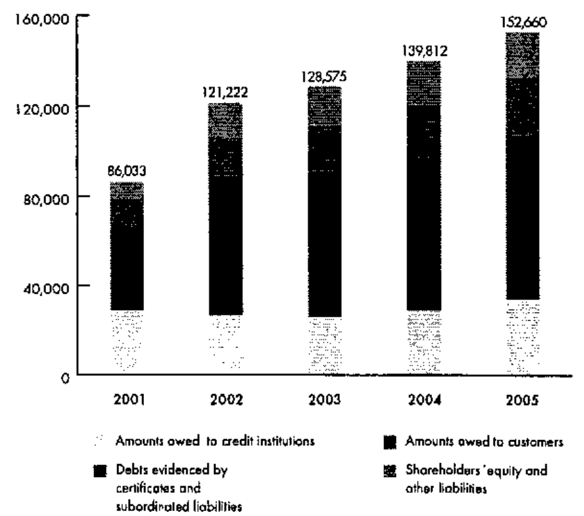
Since **financial investments** also increased by 7.7% to EUR 23.6 billion (of this total, investments of insurance companies grew by 15.4% to EUR 7.1 billion while the held-to-maturity portfolio — representing the bank's own investments and consisting mainly of listed fixed-income securities — increased by 6.7% to EUR 15.1 billion), the **total investment assets** in the form of trading assets, financial assets and other current assets increased by 12.1% from EUR 42.5 billion to EUR 47.7 billion last year.

Of the total at 31 December 2005, 11.4% consisted of trading assets, 39.1% of other current assets and 49.5% financial investments.

Balance sheet structure/assets (EUR million)



Balance sheet structure/liabilities and shareholders' equity trends (EUR million)



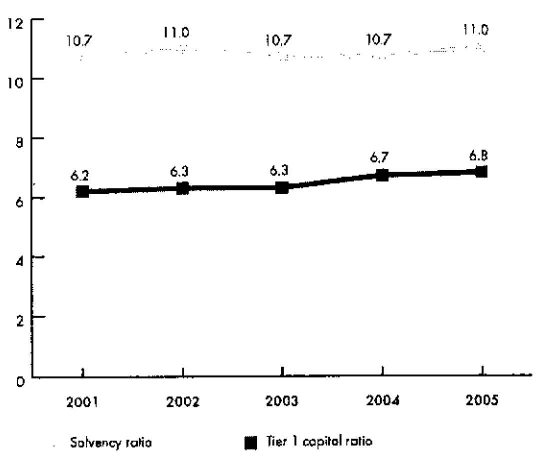
Intangible assets rose by 4.8% to EUR 1.9 billion. At 31 December 2005, they included approximately EUR 1.5 billion in goodwill.

Interbank transactions increased substantially on both sides of the balance sheet. **Loans to credit institutions** rose by 7.5% to EUR 16.9 billion, as the bulk of the loans were to foreign credit institutions. These loans increased by 10.6% to EUR 14.6 billion.

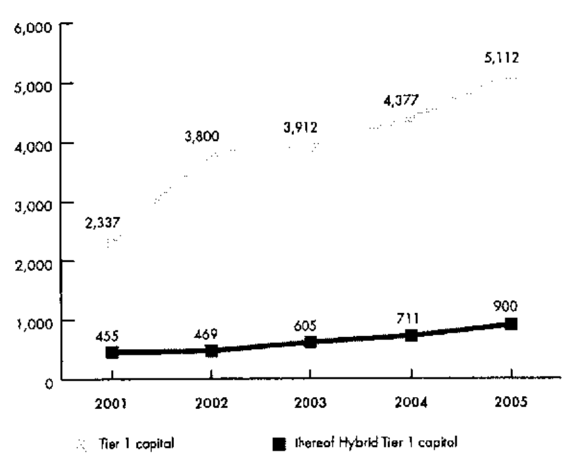
In terms of liabilities, amounts owed to credit institutions rose by 18.8% to EUR 33.9 billion, as liabilities to domestic credit institutions increased by 47.3% to EUR 9.8 billion and those to foreign credit institutions increased by 10.1% to EUR 24.1 billion.

Amounts owed to customers increased by 6.7% to EUR 72.8 billion. Of that total, savings deposits increased by 2.3% to EUR 38.8 billion. Of the other customer deposits, those from private customers increased by 7.9% to EUR 16.3 billion. At 31 December 2005, Central Europe accounted for approximately 36% of the total.

Solvency and Tier 1 capital ratio (in %)



Tier 1 capital under BWG and hybrid Tier 1 capital (EUR million)



Refinancing through **own securities issues** increased by 9.2% to EUR 25.6 billion. **Debts evidenced by certificates** rose by 8.0% to EUR 21.3 billion, while **subordinated liabilities** increased by 15.8% to EUR 4.3 billion. Finally, this last item at 31 December 2005 included hybrid capital (which qualifies as Tier 1 capital under the Austrian Banking Act (BWG)) in the amount of EUR 900 million (previous year: EUR 711 million), with EUR 200 million in gross new issues in 2005.

Total equity, which in accordance with revised IFRS now includes shareholders' equity and minority interests, increased by 8.5% to 6.5 billion in 2005. This increase was mainly due to the net profit for the period. It broke down into a 20.6% increase in Erste Bank AG **shareholders' equity**, and a 7.8% decline in **minority interests**. These changes reflect for the most part the buy-out of all minority interests in Slovenská sporiteľňa and the deconsolidation of Erste Immobilien AG. Minority interests also include the equity interests of the Haftungsverbund savings banks in which Erste Bank either does not have an interest or only a minority interest.

At 31 December 2005, **total own funds** of the Erste Bank Group as defined by the Austrian Banking Act (BWG) stood at approximately EUR 8.6 billion, up from EUR 7.3 billion the previous year. Since the statutory minimum requirement at this date was about EUR 6.4 billion, the Group's coverage ratio is 135%, up from 130% the previous year.

At 31 December 2005, **Tier 1 capital** as defined by the Austrian Banking Act (BWG) totalled approximately EUR 5.1 billion, up from EUR 4.4 billion the previous year.

The **risk-weighted assets** as defined by § 22 para. 2 of the Austrian Banking Act (BWG) increased by an above-average rate of 14.8% to EUR 75.0 billion, such that at 31 December 2005 the Tier 1 capital ratio as defined by the Austrian Banking Act was 6.8%, up from 6.7% the previous year. The **solvency ratio** as defined by the Austrian Banking Act (BWG) stood at 11.0% at 31 December 2005, up from 10.7% the previous year and well above the statutory minimum requirement of 8%.

Outlook for 2006 and recent developments

In January 2006, Erste Bank AG successfully carried out a **capital increase**. Including the greenshoe offering, a total of

64,848,960 new shares were issued at a price of EUR 45.00 per share. The share capital was thus increased by EUR 129.7 million to EUR 616.1 million. The new shares will be eligible for dividends for the full financial year 2006. The capital increase is intended to finance the acquisition of a 61.9% share of **Banca Comerciala Romana** (BCR), Romania's largest bank. The share purchase agreement was signed on 21 December 2005, and the transaction is expected to close in the second quarter of 2006. The acquisition price (excluding ancillary costs) is EUR 3.75 billion.

The Erste Bank Group expects **further earnings growth** in 2006 despite the adverse effect that restructuring costs and first-time consolidation expenses will have on the earnings of the new subsidiary BCR. However, the acquisition of a majority stake in BCR will provide a substantial basis for dynamic growth in subsequent years. As in previous years, the other central European subsidiaries will continue to contribute a substantially to the Group's profit growth, and the Austrian business is also expected to record further earnings gains.

The **group-wide synergy projects** within in the NGA programme currently being implemented should generate further earnings growth potential through revenue enhancements, cost reductions and efficiency improvements. These projects include a common purchasing, centralisation of IT developments, fine-tuning of the groups performance models and ongoing customer service improvements.

Based on the above-mentioned efforts, the Erste Bank Group's **targets** for the period **2005 through 2009** include more than 20% average annual growth in net profit after taxes and minority interests. In 2009, the cost/income ratio is forecast to be below 55%. Given the nearly 70% increase in shareholders' equity, the return on equity in the years ahead is expected to contract, but should return to the 18% to 20% range by 2009.

CORPORATE SOCIAL RESPONSIBILITY

The present sustainability report, which is being published for the first time, focuses on the activities of the parent company Erste Bank AG. A wide range of initiatives are also in the works for the central and eastern European subsidiaries, and they will be examined in greater detail in next year's report.

Social responsibility is a central theme for Erste Bank.

Ever since "Die Erste oesterreichische Spar-Casse" was founded in 1819, the mission of this institution has been aligned with serving the public interest. Erste Bank has always served the community, been a responsible business partner for constituent groups and has shared its entrepreneurial success. Erste Bank's motto is therefore no coincidence: "Every relationship is about people". The bank's business philosophy is based on transparency, ethical conduct and respect for all those affected by its activities. The bank also has a long tradition of supporting social and cultural endeavours.

Toward CSR

The concept of corporate social responsibility (CSR), or sustainable development, has become increasingly important in the German-speaking part of Europe as well as in Central and Eastern Europe. The financial services industry has recently taken up this practice. CSR promotes standards-based accountability for companies – especially listed companies – in terms of how they do business and treat people and the environment.

It goes without saying that a venerable institution with nearly 200 years of history conducts business in a sustainable manner. Although the term CSR may have been coined only recently, Erste Bank has always practised social responsibility in diverse ways that reflect the times.

CSR Programme

Erste Bank strongly supports CSR both in principle and in deed. In 2005, Erste Bank acted on this commitment by taking the first step of appointing a CSR Manager.

To gather the necessary information and data in systematic fashion and lay the groundwork for CSR reporting, Erste Bank began the process of reconfiguring its reporting systems and

developing a specific reporting procedure. Erste Bank's CSR performance will become increasingly transparent each year and meet internationally recognised standards. One enormous advantage in this respect is that Erste Bank does not first have to create most of the CSR measures and elements, since the bank's identity has always been based on socially responsible business practices.

Expansion of the CSR commitment

The concrete steps being taken by Erste Bank toward expanding its CSR commitment have been established in an action plan:

- _Expansion of CSR reporting in 2006 annual report
- _Bringing CSR performance indicators into line with internationally recognised standards such as the Global Reporting Initiative
- _Systematic stakeholder management
- _Broadening of risk management to include social, ethical and environmental issues
- _Supplier selection based on fair treatment principle
- _Environmental audit with certification
- _Increased co-operation with schools on skills training
- _Group-wide employee satisfaction survey
- _Customer satisfaction survey
- _Bringing central and east European subsidiaries up to Erste Bank standards
- _Stepped up sustainability information
- _Inclusion in the Dow Jones Sustainability Index and FTSE4Good

OUR INITIATIVES ON BEHALF OF STAKEHOLDERS

SHAREHOLDERS

Erste Bank is particularly committed to being responsible and accountable to shareholders. In 2005, the bank further enhanced its investor relations programme through greater transparency and responsiveness. The bank was recognised for these efforts on several occasions and is now working on maintaining and further enhancing its high communication standards.

Top 10 among European banks

In the "2005 European Investor Relations Perception Study", an annual ranking of investor relations departments of listed European companies compiled by the Institutional Investor Research Group, Erste Bank was rated first out of 19 Austrian companies. In the European banking sector, Erste Bank vaulted into the top 10 out of 90 banks rated.

Recognised for sustainability and social responsibility

One measure of the Erste Bank's widely acknowledged socially responsible business practices is its inclusion in Vönix, the first sustainability index of listed Austrian companies. The companies in the index are all leaders in terms of their social and environmental activities, which are assessed on the basis of more than 100 criteria. Ever since the index was launched in June 2005, Erste Bank has been a major component of this index, which includes 23 listed companies.

EMPLOYEES

Outstanding employees

Currently, the data for the key employee figures exist only for Erste Bank AG. As the CSR reporting is expanded, employee figures will be established on a group-wide basis and presented in the annual report. Noteworthy achievements include the low absenteeism and employee turnover.

Employee turnover

in %	2005	2004
Departures through voluntary retirement	4.50	4.60

The LIFETIME programme supports a successful three-generation company. Erste Bank offers its staff, which is characterised by a well-balanced age structure, targeted measures to promote health and fitness. These measures include training initiatives, the development of the company health care clinic into a work health centre and the creation of a work life centre.

Employee charter as the Code of Conduct

At Erste Bank, the Code of Conduct (in CSR terminology) goes under the name of the "Richard Wollein Employee Charter". This charter sets forth the principles for plotting the company's future course and maintaining relations with stakeholders. This basic covenant is intended to ensure that Erste Bank's corporate culture is consistent with the company's goals. In that sense, it is based on values that put people and employees first. Changes and challenges are addressed and overcome through measures based on these common values and principles.

Equal opportunities, training for women and employee advisory service

Erste Bank stands for equal opportunity for men and women and provides targeted career development support for women. It also provides a free employee advisory service to help employees solve their needs both at work and at home. This service is available at all times.

The first European staff council

At the beginning of 2005, the "European Staff Council of the Erste Bank Group" was established. This expanded staff council was the first such council to be founded in Austria since the accession of the central and east European countries to the European Union.

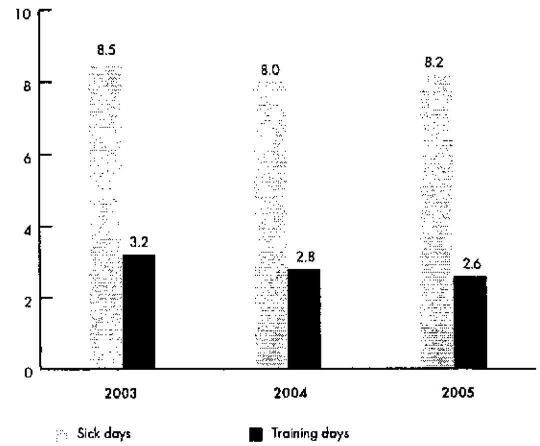
2005 apprenticeship initiative

Erste Bank has had its own apprenticeship training programme since 1997, and has a special responsibility to participate in the creation of apprenticeship positions, which have been sorely lacking. As part of its 2005 apprenticeship initiative, the bank worked closely with Wiener Städtische Versicherung to create an incentive package for commercial customers, thereby providing these companies with additional incentives to create new apprenticeship positions.

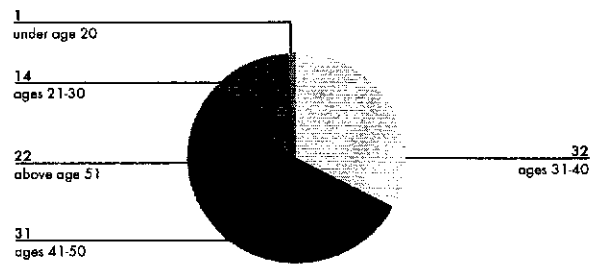
CUSTOMERS

Customer satisfaction is a decisive success factor for financial services providers, just as it is for any other company.
As a quality leader, Erste Bank places great value on this criterion. The customer's needs, goals and expectations are therefore at the heart of all the bank's activities.

Attendance and absenteeism
Average per person in days



Age structure (in %)



Quality control and complaint management

In Austria as well as Central and Eastern Europe, Erste Bank has a highly developed quality control system that includes complaint management in order to ensure lasting customer satisfaction. The quality standards are developed jointly with clients. Managers and employees always take care to ensure strict compliance with these standards.

Retirement expertise on behalf of customers

Numerous demographic studies currently confirm ever-higher life expectancies. In that context, the elderly need supplementary retirement insurance in addition to social security in order to maintain their living standards.

CIVIL SOCIETY

"Kontakt": the Central European sponsoring platform

Erste Bank's programme for arts and civil society in Central and Eastern Europe was launched under the name "Kontakt" in 2004. This programme serves as the platform for the bank's sponsoring activities.

Erste Bank partners with institutions and artists and takes part in initiatives in the Central European region by supporting contemporary artistic, cultural, educational and social projects.

The countries in which the Group is based – Austria, Hungary, the Czech Republic, Slovakia, Croatia and, since 2005, Serbia – are part of a region marked by strong economic growth. In some parts, however, the infrastructure for civil society remains underdeveloped. Erste Bank therefore would like to have a major positive impact in this respect.

Social sponsoring

Together with Caritas, Erste Bank supports the annual "ÖsterReich helps ÖsterArm" campaign in Austria as well as the annual eastern European campaign on behalf of ethnic minorities and street children in Romania and Ukraine. Erste Bank thereby contributes to the social welfare of these countries and the development of stable yet diverse civil societies in the new Europe.

Economics research

In conjunction with the University of Economics Vienna, Erste Bank sponsors economic research in Central Europe. These initiatives include the "Joszef" management training program, the "Masterclass Eastern Europe" to develop theoretical and practice-based understanding for the region and the "Erste Bank Award for Research in Central Europe". This award, backed by a EUR 20,000 prize, was handed out for the second time in 2005 to young scientists examining issues involving economic integration and internationalisation.

Each year, 60 selected students from Austria, the Czech Republic, Slovakia, Hungary and Croatia participate in the "Erste Bank Summer University Danubia", established in conjunction with University of Economics Vienna. This programme is offered in English and is held on a rotating basis in the participating countries. It combines practical know-how from the central European business environment with academic knowledge, and promotes the exchange of opinions and experience.

ENVIRONMENT

Erste Bank has a strong commitment to environmental protection in its everyday operations. Energy consumption and the use of non-renewable resources are continuously reduced through numerous programmes.

Energy saving and waste management

In 2005, Erste Bank's waste management policy and comprehensive measures for controlled energy consumption at the various branches resulted in 10% savings relative to the previous year. In addition, paper consumption was kept constant at 570 tonnes. As recently as 2001, paper consumption was 700 tonnes.

Procurement

Erste Bank's procurement policy is to purchase products that can be recycled and use limited natural resources. In the future, suppliers will be chosen based on the fair treatment principle. Preference will be given to suppliers who comply with specific social, ethical and environmental principles.

Segment Report

INTRODUCTORY REMARKS

We have redesigned this year's segment report. While we kept the usual reporting structure – as detailed below – that investors are used to from previous annual and quarterly reports we have expanded the content to include a structured round-up of our operating environment.

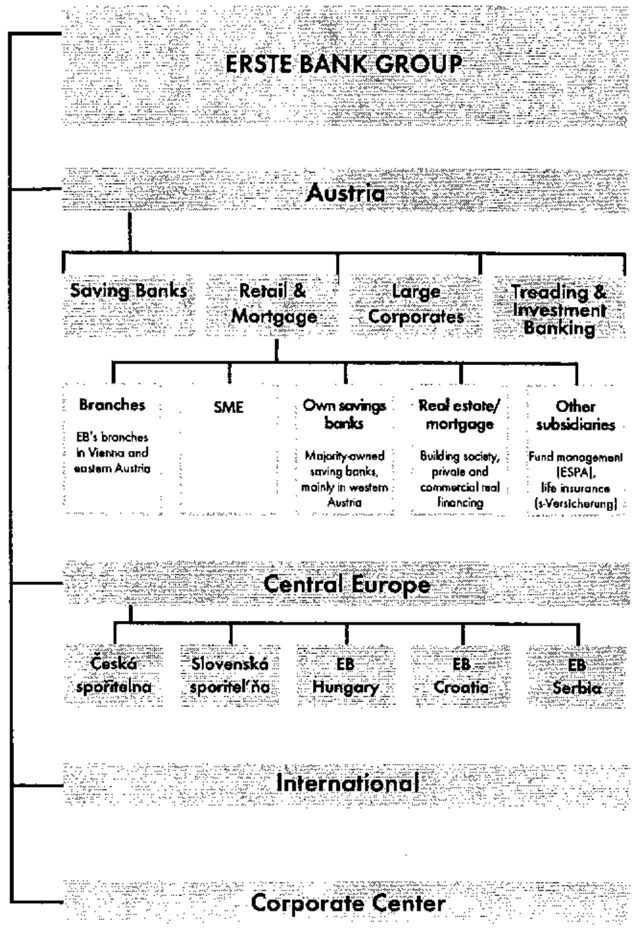
The expanded segment report now includes an economic review for each country Erste Bank is operating in. The review draws on independent findings of the European Bank for Reconstruction and Development, the European Commission and the Vienna Institute for International Economic Studies. This is complemented by a review of the banking market and a discussion of Erste Bank's market position, based mainly on local central bank data.

As in previous years, we use a number of financial measures to assess the performance of our business segments. All measures are calculated in accordance with IFRS and show the group contribution of the single business lines in relation to the overall group performance. In any case, this leads to differences between locally reported figures and measures, and segment numbers.

We use return on equity on a segmented basis for performance evaluation and resource allocation decisions. While return on equity for the group as a whole provides a measure of return on common equity, return on equity on a segmented basis provides a similar metric related to the capital allocated to the segments. We allocate capital to calculate segment return on equity based on the distribution of risk-weighted assets. Accordingly, locally reported return on equity and segmented return on equity differ substantially from each other.

We also allocate funding costs in segment reporting to account for the cost of acquisitions. These are booked against net interest income in the respective segments. Accordingly, the net interest income line in segment reporting can show material differences compared to local reporting. It also impacts such profitability and efficiency measures as return on equity and the cost/income ratio.

The detailed business results are summarised by segment and geographic market in Note 27 to the Consolidated Financial Statements.



"Quality always pays"

The Robert Goldenits vineyard in Tadten, Burgenland is doing its part to contribute to Austria's remarkable rise as a major red wine producer in Europe. Some 20 years ago, several winemaking families decided to focus their production on high quality. Today, this strategy has clearly paid off. Robert Goldenits still runs the family business, located near the Hungarian border in the so-called Heideboden region, south-east of Lake Neusiedl. The region is in the heart of a highly prized red wine growing area and is a major reason why Austria is now known for more than just its Green Veltliner variety. The success of Austrian vineyards is also reflected in the growth of their exports. In the past, most of Austria's domestic wines were consumed within the country, but today the premium wines from Austria are prized world-wide.

Erste Bank: "Mr Goldenits, congratulations on your success!"
Robert Goldenits: "What do you mean?"
Erste Bank: "Well, your Mephisto premium vintage was chosen one of the five best wines of 2003. That is a major success!"
Robert Goldenits: "Indeed, that is a major recognition for our consistent work over the previous years. The 2003 Mephisto comes very close to what I consider to be a good and balanced wine from our region."
Erste Bank: "What is the secret to your success?"
Robert Goldenits: "First, we insist on uncompromising quality for all our wines. Second, we try to extract the typicity of our sites in order to give the wines a distinctive character. This is very labour-intensive, especially in the vineyards, where we are cutting back sharply on volume and harvesting only the finest quality grapes. Moreover, in recent years we have invested heavily in our wine production technology, including a new building and modern presentation room, and have agreements with contract growers covering eight hectares of vineyards."
Erste Bank: "You just mentioned your significant investments. How does a family-owned operation finance them?"
Robert Goldenits: "To be sure, we and especially our colleagues have invested huge sums. Despite the reduction in volume, however, we were able to generate more income by significantly raising the quality of our wines. As they say, quality always pays! A family-owned winery must be prepared to make those investments, which naturally requires a generational agreement and a strong passion. The combined efforts of all the partners are required to produce a fine, harmonious, varietal wine."
Erste Bank: "Mr Goldenits, thank you for talking with us and we wish you the best of luck in the future."